



Guidelines for Informal Sector Support

**Department of Industry
Ministry of Industry, Commerce and Employment
Royal Government of Bhutan**

October 2024

[Handwritten mark]

Table of Content

1. Introduction.....	1
1.1 Definition of Informal Sector.....	2
2.Objective:.....	2
3. Eligibility:	2
4. Amount of the support:	2
5. Procedures for Grant Application.....	2
6. Proposal Evaluation Criteria:.....	3
7. Administration of the Support:	3
8. Obligation of the beneficiary.....	4
9. Informal Sector Evaluation Committee (ISEC).....	4
10. Departmental Committee (DC)	4
11. Monitoring and Evaluation:.....	4



1. Introduction

The informal economy, comprising activities that have market value and would add to tax revenue and Gross Domestic Product (GDP) if recorded, is a widespread global phenomenon. Reports from developed and developing countries reveal the significant role played by the informal sector in terms of its contribution to Gross Domestic Product and employment generation. For instance, in North Macedonia the Informal Sector has contributed for a significant 23.2 percent of the GDP according to Finance Think Policy, 2022 (International Labour Organisation, 2024). Moreover, according to the National Sample Survey Office of India, informal activities constitute over 44 percent to the Gross Value Added (GVA) of the country and generate nearly 75 percent of the workforce employed just by excluding the agriculture sectors (The Indian Express, 2024). The study depicts that in Asia and North Africa the Informal Sector has contributed 30.2 percent and 35.8 percent of the GDP respectively (Adhikari, 2020).

However, the growth of the informal sector is hindered by the lack of regulation and support provided by the formal institution, and minimal investor protection, and access to credits and financial resources. Moreover, unfair market competition, and low productivity and poor management has left the informal sector underdeveloped (Saltuna, 2022).

Further, it is also argued that informal workers lack formal contracts, decent working conditions and social protection. Empirical studies also find that high informality is associated with high inequality. Workers tend to earn less in the informal sector than peers with similar skills in the formal sector, and the wage gap between formal and informal workers is higher at lower skill levels.

In view of the above developmental challenges associated with a larger share of the informal sector in the economy, it is important to support and facilitate informal firms to transit to the formal sector to achieve inclusive growth.

Given the limited information on informal sectors, the erstwhile Department of Cottage and Small Industry had conducted a survey in twelve Dzongkhags determining their size,



composition, issues and challenges etc. The study report validated the prevalence of varied informal activities in twelve Dzongkhags and recommended support measures such as infrastructure development and storage facilities, skill development training, access to equipment, machinery, technology and market linkages among others.

1.1 Definition of Informal Sector

For the purpose of this Guideline, the definition of informal sector/activities means those businesses undertaken by an individual, group and households without the business license/registration certificate from relevant authorities.

2.Objective:

The objective is to provide strategic interventions to support informal sectors to enhance their contribution to economic development and transit to the formal sector.

3. Eligibility:

- 3.1 Informal business engaged in production and manufacturing;
- 3.2 Preference shall be given to women, youth and persons with disabilities.

4. Amount of the support:

- 4.1 The support amount shall not exceed Nu. 300,000 (Three Hundred Thousand).

5. Procedures for Grant Application

- 5.1 The Dzongkhags and other relevant agencies shall identify active informal businesses requiring interventions.
- 5.2 The Department in collaboration with the Dzongkhags may conduct a preliminary assessment where necessary.



5.3 The Dzongkhags and other relevant agencies shall submit the proposal to the Department. The proposal shall capture all relevant information as per the required criteria mentioned in Section 6 of this Guidelines.

5.4 The Informal Sector Evaluation Committee (ISEC) shall apprise and evaluate the proposal received based on the criteria mentioned in Clause 6 of this Guidelines.

5.5 The evaluation result of the ISEC shall be submitted to the Departmental Committee (DC).

5.6 Decision of the Departmental Committee shall be notified in writing within one (1) working day after convening the Departmental Committee meeting.

6. Proposal Evaluation Criteria:

The Informal Sector Evaluation Committee shall apprise and evaluate the proposal based on, but not limited to the following criteria:

6.1 Number of years as informal sector.

6.2 Number of people employed/employability by the informal business.

6.3 Suitability of the business in the proposed location - availability and use of local resources.

6.4 Potentiality of the sector - export, import substitution, supply consistency, growth potential, etc.

6.5 Potential for community development and engagement.

6.6 Relevancy of the support required.

7. Administration of the Support:

7.1 The tendering process for the procurement of equipment/machineries shall be carried out by the Department in accordance with the procurement rules and regulations.

7.2 The amount shall be released to the supplier/s by the Department upon submission of bills which is duly verified in all respects.



7.3 Agreement shall be executed between the Department and the beneficiary. All the parties shall implement the grant as per the Agreement (*Annexure I*).

8. Obligation of the beneficiary

The beneficiary must obtain a business license within one year from the date of receipt of the support.

9. Informal Sector Evaluation Committee (ISEC)

9. 1. The ISEC shall comprise members from each Divisions of the Department.

10. Departmental Committee (DC)

10.1 The DC shall be formed comprising of the following members:

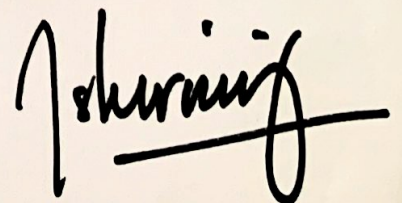
1. Director General, DOI as the Chairman;
2. Chief Industries Officer, Cottage and Small Industry Promotion Division, Member;
3. Chief Industries Officer, Invest Bhutan Division, Member;
4. Chief Industries Officer, Industry Sustenance Support Division, Member;
5. Chief Industries Officer, Large Industry Promotion Division, Member;
6. Chief Industries Officer, Industrial Park Management Division, Member
7. CSIPD as Member Secretary.

10.2 2/3 of the Committee members including the Chairperson shall constitute a quorum;

11. Monitoring and Evaluation:

11.1. The Cottage and Small Industry Promotion Division shall monitor the beneficiaries jointly with the Dzongkhag on an annual basis and submit the report to the Department.

11.2 The Department shall ensure that the beneficiary obtains a business license within one year from the date of receipt of the support.

A handwritten signature in black ink, appearing to read 'J. Shuming', with a horizontal line underneath the name.